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MEMORANDUM FOR: Bill Casey

FROM: Mac Baldrige Mac

SUBJECT: Economic Roundup

Enclosed is the November issue of our Monthly Economic Roundup.

Enclosure

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no basis in file

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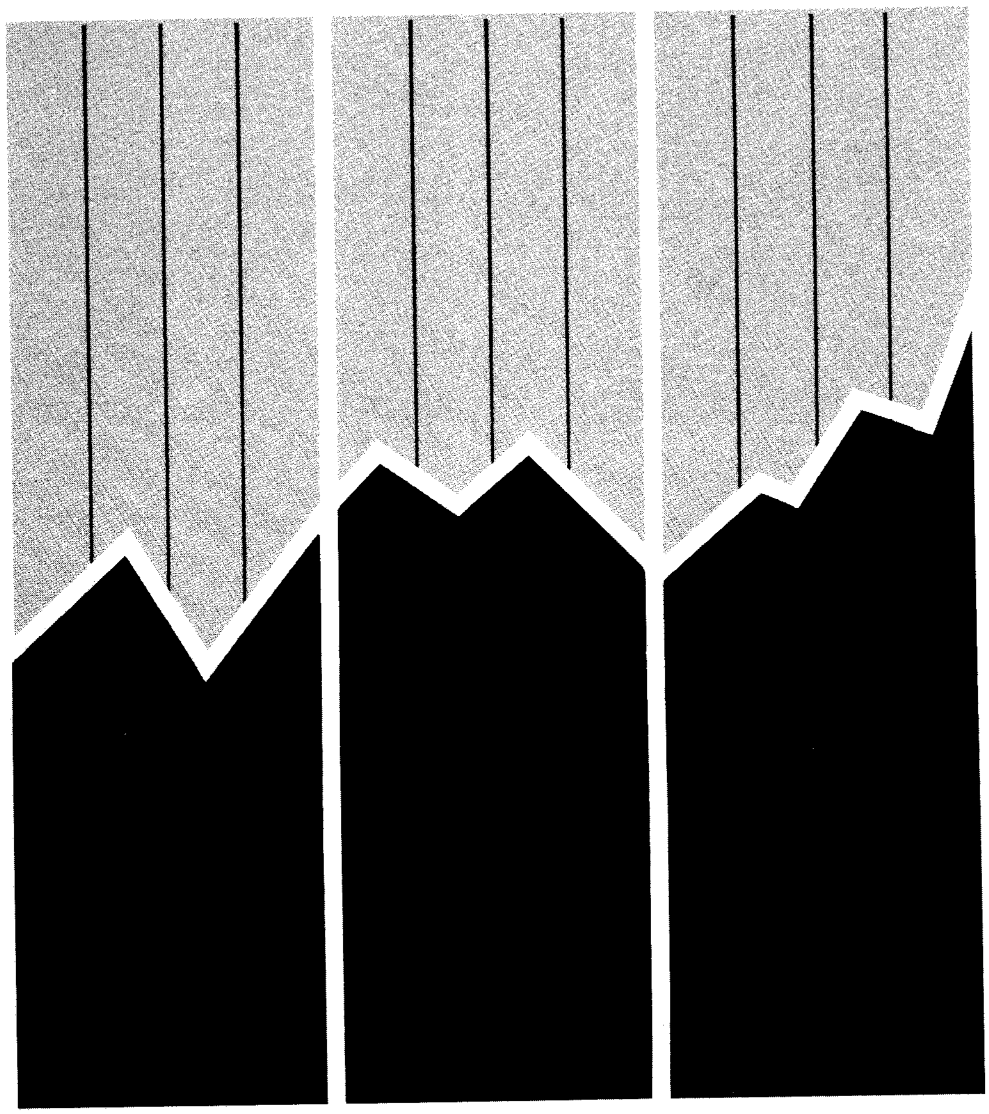
The Economic Roundup



A MONTHLY REVIEW OF ECONOMIC DEVELOPMENTS

Not referred to DOC. Waiver applies.

Office of Economic Affairs
U.S. Department of Commerce

[redacted]

Approved For Release 2007/03/19 : CIA-RDP83M00914R[redacted]

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THE ECONOMIC ROUNDUP

A Monthly Review of Economic Developments

Prepared by

The Office of the Chief Economist

U.S. Department of Commerce

Malcolm Baldrige
Secretary of Commerce

Robert Dederick
Under Secretary for Economic Affairs

Robert Ortner
Chief Economist

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Summary

The economy's downward momentum continued through October. An end to the recession, which would be evidenced by renewed growth in the composite index of coincident economic indicators, is long overdue considering that the leading index reached a trough last March. Modest expansion in real GNP is possible for the current quarter. Another decline in capital spending and a large cutback in auto assemblies probably will limit the annual rate of growth to less than 1 percent, following a downward-revised zero change in the third quarter.

Real GNP growth averaging in the 4 to 4.5 percent range is likely over the four quarters of 1983. At present, we expect moderate gains in the first half to be followed by a stepped-up pace in the second half, as capital spending begins to recover and inventory accumulation accelerates.

Fundamental factors characterizing economic activity include:

- Financial conditions more conducive to economic recovery than at midyear. In spite of very large credit demands by the Federal Government, interest rates have remained near their lowest levels of the year, and the discount rate was lowered half a percentage point. Monetary policy apparently has become more accommodative, although Fed officials say that no fundamental change has occurred. A key uncertainty is the rate of growth of the aggregates next year as the economy expands, and the response of the Fed to this growth.

- Weak product markets. The notable exception is housing, where recovery from an extremely depressed level last year is gathering momentum. Industrial production dropped further in October, while the operating rate in manufacturing slumped to a new postwar low. The weakest economic sector currently is business fixed investment. Renewed inventory liquidation is in progress during the current quarter. A modest rise in October's index of leading indicators is consistent with our view that demands for goods and services will be picking up in the months ahead.

- Depressed labor markets. Payroll employment was cut sharply in October, while the unemployment rate reached a new postwar high. Initial claims for unemployment insurance remained near a postwar peak in October, and then declined substantially during the first half of November. If the drop continues, renewed growth in employment will follow soon. The rate of wage increase is showing signs of stabilizing at about 6 percent, following earlier deceleration. Growth in wage and salary income and in consumer spending remains weak. The personal tax burden, though down a little from the record level at the recession's onset, is still high by historical standards.

Money and Credit Conditions

Private credit demands have eased since late summer. At the same time, the Fed has been more liberal in supplying nonborrowed reserves to the banking system, even though the main measures of the money supply have been growing above the upper limit of their target ranges.

- During the last three months, nonborrowed reserves have risen at an annual rate of 15.3 percent, compared with rates of 12.7 percent over the past six months and 8.1 percent over the past year. The Fed is, accordingly, being more accomodative and is helping markets absorb new Treasury debt without perverse effects on interest rates.

- Business demand for short-term credit (bank loans and commercial paper outstanding) has dropped since early October. Firms stepped up long-term borrowing in recent months as bond yields came down. In early November, corporate bond registration volume was a record $40 billion. Treasury and municipal demands for credit have been strong, so it is not clear whether total demand for funds has eased.

- Treasury's net borrowing rose from less than $12 billion in the second quarter to over $60 billion in the third quarter. Cash needs in the fourth quarter will be at least $50 billion, and are likely to rise again in the first quarter of 1983.

- Consumer use of installment credit remains subdued. So far this year, new credit extensions rose at an annual rate of 8.1 percent, compared with gains averaging 12 percent during the late 1970s. Installment debt outstanding rose at an annual rate of only 2.1 percent, compared with a growth rate of 17 percent in the late 1970s. The installment debt burden is modest, with repayments at 14.8 percent of disposable income in the third quarter, the lowest reading in at least ten years.

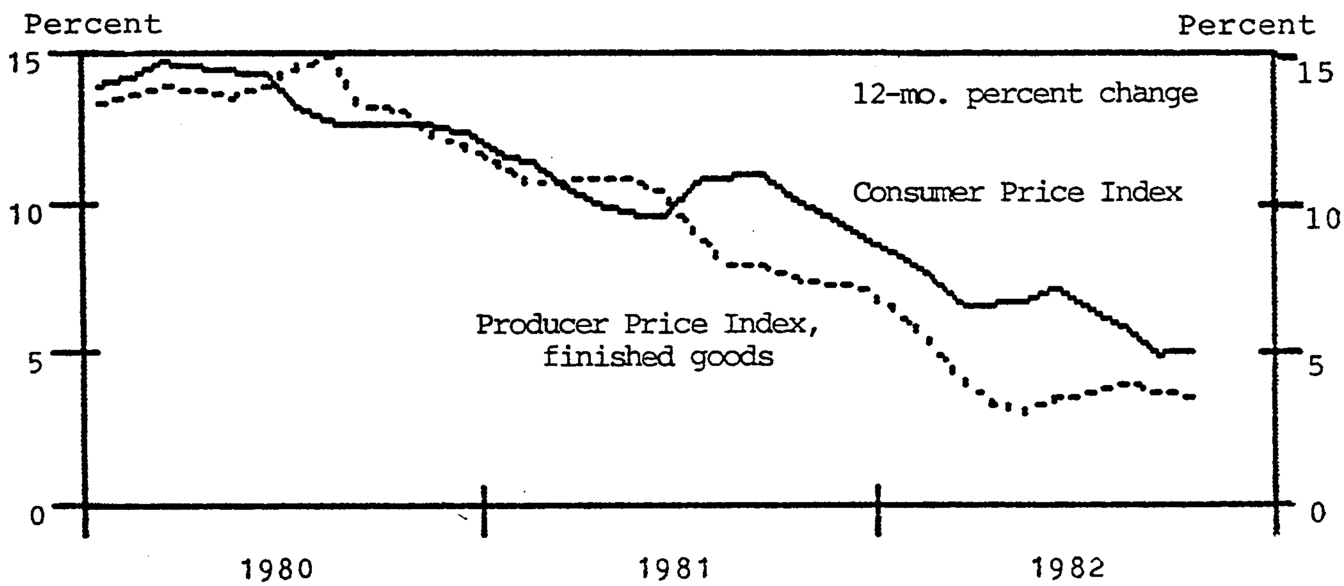
- Interest rates declined sharply through mid-October, and generally have shown little change since then. The one-half percentage point reduction in the Fed's discount rate to 9 percent, effective November 22, was followed by a one-half point cut in the prime rate to 11 1/2 percent.

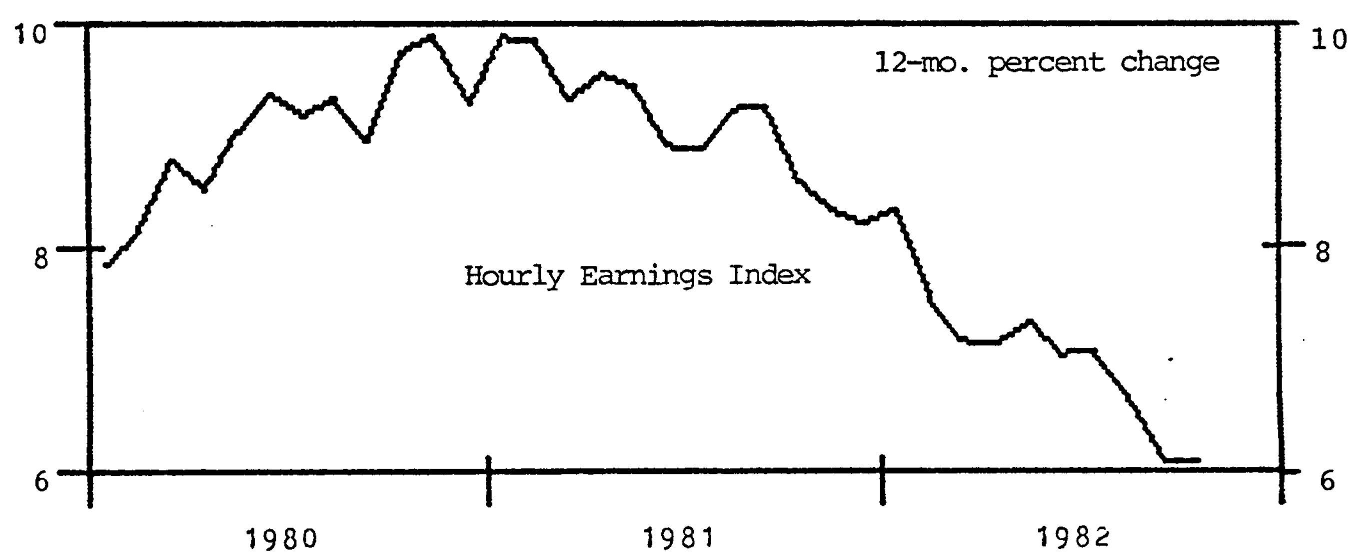
Selected Yields (Percent)

	Week Ended Nov. 26	Nov. 19	Oct. 15	July 2
Fed funds	8.9	9.6	9.6	14.8
3-mo. Treasury bills	7.9	8.4	7.4	13.3
Moody's Aaa corporate bonds	11.7	11.7	11.9	15.1
Mtg. commitments, 80% LTV	13.8	13.8	14.6	16.9

Wages and Prices

The deceleration in wage and price increases stalled in recent months. Wage increases have returned to rates last seen in 1973, about 6 percent. Consumer prices have settled down to about a 5-percent rate of increase, while producer prices have turned in the best performance with a 3.3-percent rate so far this year.





- Wage increases have stabilized at about a 6-percent annual rate, representing a 2 1/2-percentage point deceleration from the gain over the year ending October 1981. Wage demands may firm in 1983 as profits recover, but actual wage increases will be tempered by continued high unemployment and the past slowdown in inflation.

- Producer prices of finished goods rose at an annual rate of only 3.4 percent from December to October, following a 7.1-percent rise during 1981. In September and October, prices of finished goods were dominated, first, by discounts on 1982 motor vehicles and then by increases on 1983 models. Excluding those factors, prices of finished goods rose only 0.4 percent from August to October. Prices of intermediate goods and crude materials dropped further, reflecting price declines for agricultural commodities and continuing weakness in basic industries.

- The consumer price index rose at an annual rate of 4.9 percent from December to October, following an 8.9-percent rise during 1981. October's increase accelerated to 0.5 percent, as a jump in home prices partially offset a decline in mortgage rates. Residential rent and used car prices rose sharply. For the twelve months ending December 1982, the CPI is likely to rise by a little less than 5 percent.

<u>Productivity, Cost, and Price Relationships</u>

	Percent Change		Ratio	Percent Change	
First 4 Quarters Of Recovery	(1) Real GNP	(2) Output per hour*	(2)/(1)	Price to Unit Labor Cost Ratio*	Prices*
1954 II - 1955 II	7.4%	5.0%	0.68	3.1	1.6%
1958 II - 1959 II	8.4	4.9	0.58	3.2	2.6
1961 I - 1962 I	7.0	5.4	0.77	2.8	1.5
1970 IV - 1971 IV	4.7	3.8	0.81	1.6	3.5
1975 I - 1976 I	6.7	5.1	0.76	3.0	5.4
1980 II - 1981 II	3.0	2.5	0.81	2.0	9.2
average	6.2	4.5	0.74	2.6	4.0

*Private nonfarm business

In the first year of recovery from the previous six recessions, output per hour rose about three-quarters as fast as real GNP. The ratio of prices to unit labor cost rose, on average, by 2.6 percent, as profit margins recovered. (The rise was less during the two weakest first-year recoveries in the postwar period--after the 1970 and 1980 recessions.)

These average relationships suggest the following possible changes in productivity, unit labor cost, and prices from the end of 1982 to the end of 1983:

- With GNP growing 4 percent or better, productivity could rise about 3 percent.

- A 6.5 percent increase in compensation, less the productivity increase, suggests unit labor cost rising in the range of 3 to 4 percent.

- Prices may increase in the range of 5 to 6 percent (calculated by adding a two percentage point margin to the rise in unit labor costs). The actual price rise could be near the lower end of the range, given both the present operating rates in the economy and the likelihood of a sub-par first year recovery.

Employment and Unemployment

Labor market conditions deteriorated further in October, as declines accelerated in the major measures of employment. Initial claims for unemployment insurance, the unemployment rate, and the average duration of unemployment were at record postwar highs.

- Nonfarm payroll employment, as measured by the establishment survey, dropped by 263,000 in October. Much of the weakness came in durable goods manufacturing, but wholesale and retail trade payrolls fell for the third consecutive month. The average workweek in manufacturing (a leading indicator of employment) was unchanged in October after a sharp cutback of 0.5 hour from July to September.

- The number of persons with jobs, a more erratic series based on the household survey, also dropped substantially in October. The unemployment rate rose 0.3 point for the second month to 10.4 percent. At the same time, the average duration of unemployment rose 0.6 week to 17.2 weeks, and based on past experience, it is likely to keep rising well after the unemployment rate starts to decline.

Consumer Sector

The consumer, thus far, has failed to lead the economy out of recession. However, recent easing of consumer interest rates, improved wealth positions, a low installment debt burden, and a relatively high personal saving rate all suggest that growth in consumer spending should pick up in the months ahead.

- Real consumer spending rose at an annual rate of only 1.1 percent in the third quarter, less than half the 2.5-percent rate during the first half of the year. Preliminary data for October show a current dollar gain of 0.1 percent from September, which implies a small decline in real terms. However, domestic new car sales, aided by special promotions, were strong during the first three weeks of November. Income growth remains weak, especially in wages and salaries. Special factors contributed to increases of 0.7 percent in both personal income and disposable income during October. Over half the gain came from the Federal pay raise, increased unemployment insurance benefits, and cost-of-living adjustments to several transfer payment programs.

- The personal tax burden declined by one percentage point from the record high in the third quarter of 1981 to the third quarter of 1982. The tax burden currently exceeds the level for all previous years except 1981, but will drop further in 1983 when Federal personal income tax withholding rates decline again.

TAX BURDEN

Personal Tax and Nontax Payments Plus
Personal Contributions for Social Insurance
(percent of earned personal income)*

annual	burden	quarterly	burden
1974	21.4%	1981 I	24.0%
1975	20.5	1981 II	24.2
1976	21.4	1981 III	24.3
1977	22.0	1981 IV	23.8
1978	22.3	1982 I	23.8
1979	22.9	1982 II	23.9
1980	23.3	1982 III	23.3
1981	24.1		

*Earned personal income equals wages and salaries, proprietors' income, interest, dividends, and rental income.

Housing

The strong gain in housing starts during recent months means that residential construction will contribute more to real GNP in the current quarter than in the third quarter.

- Housing starts were up 17 percent from the second to third quarter. While starts were virtually unchanged in October, they were 31 percent above the trough level of a year ago. Housing permits rose sharply once again and exceeded starts in October, suggesting further increases in starts. We project housing starts to rise from an annual rate of 1.2 million units in the current quarter to 1.55 million units by the end of 1983.

- Declining mortgage rates are helping the housing market. The mortgage rate for 80-percent loans (Federal Home Loan Corp.) dropped to under 14 percent by mid-November from a recent peak of 16.9 percent in early July. In mid-November, the FHA-VA ceiling rate was cut another half point to 12 percent, inducing a surge of mortgage applications. (The ceiling rate was as high as 16 1/2 percent early this year.)

Capital Spending

Business fixed investment continues to decline, and prospects are poor for a near-term recovery.

- McGraw-Hill reported in early November that businesses plan to reduce capital spending by 2.1 percent in 1983. Companies in the survey (450 firms representing one-third of total capital spending) expect capital goods prices to rise by 7 percent, which implies a real decline of about 8 1/2 percent. Previous surveys taken in years of capital spending declines, however, tended to be overly pessimistic.

- BEA will release the results of its latest capital spending survey on December 9, covering plans through the first half of next year.

- The extremely depressed operating rate of 68.4 percent in manufacturing does not augur well for a quick turnaround in business fixed investment. In the past, real capital outlays by manufacturers generally did not turn up from cyclical declines until well after economic recovery began, at which time the operating rate had returned to the high 70s.

- Real contracts and orders for new plant and equipment declined 2.7 percent in October, following a drop of 6.4 percent from the second to the third quarter.

Production, Inventories, and Orders

Industrial production dropped sharply again in October, suggesting renewed inventory liquidation in the fourth quarter, after an involuntary buildup of new car stocks in the third quarter. Manufacturers' new orders for durable goods were down considerably in October, which does not necessarily imply extended weakness in production. During the postwar period, the lead time between a pickup in new orders and recovery in industrial production averaged less than two months.

- Industrial production declined 0.8 percent in October, with about half the drop coming from motor vehicles. A further sharp cutback in output of business equipment was the other major source of weakness. Auto assemblies are scheduled to stabilize in November and then increase about 10 percent in December.

- A small rise in total business inventories in the third quarter was more than attributable to new cars. Less motor vehicles, inventory liquidation continued. In the fourth quarter, a steep cutback in new car inventories is underway--enough to cause a decline in total business inventories. But this is a positive development for industrial production early next year.

- Manufacturers' new orders for durable goods have been trending down for over a year. In October, orders dropped 5 percent, and were 20 percent below the July 1981 peak. Steel orders were down for the third consecutive month, and were 57 percent below the peak of July 1981. (Steel mills operated at about 38 percent of capacity in October.)

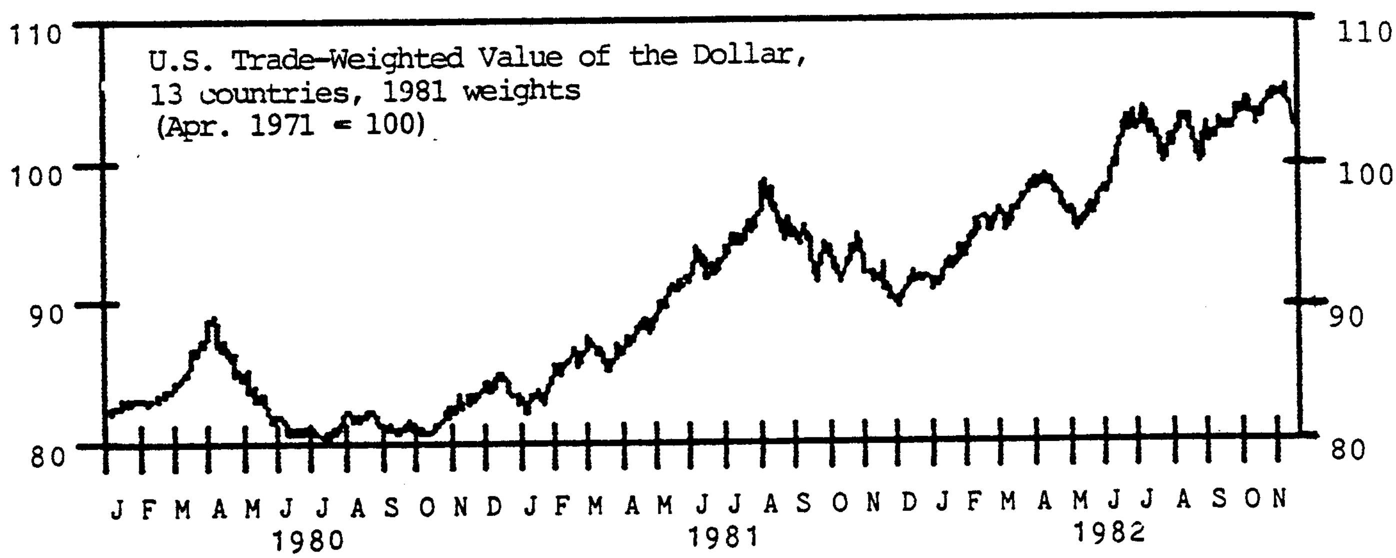
International

The dollar rose to a record high in early November, and then eased a bit. During the past month, the dollar dropped about 9 percent against the yen. Interest rate differentials that still favor the dollar and confidence in long-term economic prospects for the U.S., relative to other industrial countries, are attracting inflows of foreign capital. While helping to reduce domestic inflation, the strong dollar is having a major adverse impact on our exports.

- From the third quarter of 1980 (when the dollar began its rise) to the third quarter of 1982, net exports of good and services dropped from $53.1 billion to $25.7 billion (1972 dollars). The decline in the third quarter of 1982 was an extraordinary $10 billion.

- The merchandise trade deficit (c.i.f. basis) rose to $5.3 billion in October, following a monthly average of $4.6 billion during the third quarter. Exports dropped 5.3 percent below the third quarter monthly average, while imports showed little change. An estimated $45 - $46 billion deficit on a c.i.f. basis is likely for 1982, exceeding the previous record of $42.4 billion in 1978.

- The recent deterioration in the trade balance means that the U.S. current account is in deficit so far this year. Both the current account and the trade deficits are expected to increase sharply in 1983.



Source: Department of Commerce, ITA

ECONOMIC INDICATORS

	Oct	Sept	Aug	July	June	May
General Indicators (% change)						
Composite Index of Leading Indicators	0.2	1.1	-0.2	1.3	0.5	0.9
Composite Index of Coincident Indicators	-1.0	-0.6	-0.8	-0.5	-1.2	0.7
Composite Index of Lagging Indicators	-3.2	-1.6	-4.1	-0.7	-0.4	-0.2
NAPM Composite Diffusion Index (percent)	37.7	37.7	38.9	40.4	39.6	35.0
Employment						
Total Employment (change in 000's)	-627	-119	107	-32	-353*	777*
Payroll Employment (change in 000's)	-263	-124	-223	-304	-327	83
Unemployment (change in 000's)	291	455	15	363	-122	242
Unemployment Rate (percent)	10.4	10.1	9.8	9.8	9.5	9.5
Initial Claims for Unemployment Insurance (000's)	670p	671	597	515	551	585
Factory Workweek (hours)	38.7	38.7	39.0	39.2	39.2	39.1
Production and Orders						
Industrial Production (% change)	-0.8	-0.7	-0.3	0.1	-0.4	-0.7
Capacity Utilization, Manufacturing (%)	68.4	69.2	69.8	70.0	70.0	70.2
Auto Production (mil. units, AR)	4.3	4.9	6.6	6.6	5.7	5.4
Total New Orders (% change)	N.A.	0.7	-2.7	1.0	0.2	1.2
Nondurable Goods (% change)NA	N.A.	1.5	-0.9	-0.4	1.8	2.9
Durable Goods (% change)	-4.9	0.4	-4.6	2.6	-1.5	-0.6
Nondefense Capital Goods (% change)	-0.3	7.3	-7.0	5.4	-5.2	-10.1
Inventories						
Manufacturing and Trade Inventories (percent change)	N.A.	0.1	0.2	0.1	0.5	-0.9
Inventory/Sales Ratio	N.A.	1.52	1.52	1.49	1.48	1.46
Chg. in Auto Inventories (mil. units, AR)	-0.8	-0.6	1.8	1.6	1.2	-0.5
Prices and Wages						
Consumer Price Index (% change)	0.5	0.2	0.3	0.6	1.0	1.0
Food (% change)	0.2	0.5	-0.3	0.0	0.6	0.8
Energy (% change)	0.2	-0.1	0.0	1.4	4.1	1.6
All Other Items (% change)	0.4	0.0	0.5	0.6	0.9	0.9
Producer Prices						
Finished Goods (% change)	0.5	-0.1	0.6	0.6	1.0	-0.1
Intermediate Goods (% change)	-0.2	0.0	-0.1	0.5	0.3	0.2
Crude Goods (% change)	-0.7	-1.5	-0.6	-1.0	-0.1	2.3
Hourly Earnings Index (% change)	0.4	0.1	0.7	0.5	0.3	1.0
Hourly Earnings Index (12-month % change)	6.1	6.0	6.6	7.0	7.0	7.3

*reflects inadequate seasonal adjustment
e - estimated
p - preliminary

ECONOMIC INDICATORS (cont'd)

	Oct	Sept	Aug	July	June	May
Consumer Spending and Income						
Personal Income (% change)	0.7	0.2	0.2	0.9	0.4	0.8
Wages and Salaries (% change)	0.1	0.0	0.1	0.4	0.2	0.9
Disposable Personal Income (% change)	0.7	0.3	0.2	1.9	0.1	0.3
Real Disposable Personal Income (% change)	N.A.	-0.1	-0.2	1.3	-0.9	0.0
Personal Consumption Expenditures (% change)	0.1	1.1	0.5	1.0	0.0	1.0
Real Personal Consumption Expenditures (% change)	N.A.	0.7	0.1	0.4	-1.0	0.7
Retail Sales (% change)	0.6	0.6	-1.1	1.6	-3.1	2.9
Domestic New Car Sales (mil. of units, AR)	5.5	6.0	5.4	5.1	4.8	6.2
Saving Rate (percent)	7.0	6.4	7.0	7.5	6.6	6.5
Consumer Installment Credit (change, $ millions)	N.A.	1092	66	570	1349	1399
Consumer Confidence Index (Conf. Board)	49.2	54.4	53.7	61.6	57.1	58.3
Consumer Buying Plans (Conf. Board)	61.5	75.3	89.0	92.0	73.9	74.9
Consumer Sentiment (U. Mich.)	73.4p	69.3	65.4	65.4	65.7	67.5
Construction						
Real Construction Expenditures (% change)	N.A.	-0.4	1.0	-1.7	1.6	2.2
Private Residential (% change)	N.A.	-0.2	1.2	0.8	0.4	5.3
Private Non-residential (% change)	N.A.	-0.3	-1.0	-3.6	2.8	2.7
Public	N.A.	-0.9	5.0	-1.5	0.6	-3.0
New Home Sales (% change)	N.A.	23.7	5.9	-4.1	-6.6	17.9
Housing Starts (000's of units, AR)	1122	1111	1033	1193	908	1066
Housing Starts (% change)	1.0	7.6	-13.4	31.4	-14.8	20.9
Housing Permits (% change)	16.9	13.0	-16.4	14.3	-1.6	7.4
Mortgage Interest Rates, FHLBB (percent)	15.73	16.18	17.01	17.23	17.16	17.28
Money and Credit Conditions						
M1 (% change)	1.7	1.2	0.9	0.0	0.0	-0.2
M2 (% change)	0.7	0.4	1.2	0.8	0.5	0.9
Federal Funds Rate (percent)	9.71	10.31	10.12	12.59	14.15	14.45
3-month Treasury Bills (percent)	7.75	8.20	9.01	11.91	12.10	12.15
Bank Prime Rate (percent)	12.62	13.50	14.39	16.26	16.50	16.50
Treasury Bond Yields (percent)	10.65	11.48	12.15	12.97	13.32	12.67
Corporate Bond Yields (percent)	12.68	13.79	14.64	15.75	15.96	15.37
Commercial and Industrial Loans (% change)	0.5	1.6	0.2	0.4	1.6	1.6

p - preliminary

ECONOMIC INDICATORS (cont'd)

	Oct	Sept	Aug	July	Jun	May
International Trade						
Merchandise Exports ($ billions)	16.7	17.4	17.5	18.0	18.8	18.2
Merchandise Imports ($ billions)	22.0	21.6	24.6	20.4	22.3	21.5
Trade Balance, c.i.f. ($ billions)	-5.3	-4.2	-7.1	-2.4	-3.4	-3.3

	1982			1981		
National Accounts	III	II	I	IV	III	II
Nominal GNP (% change, AR)	4.7	6.8	-1.0	3.0	11.4	5.3
Real GNP (% change, AR)	0.0	2.1	-5.1	-5.3	2.2	-1.5
Real Disposable Income (% Change, AR)	2.3	3.1	-1.9	1.2	4.8	0.6
Real Consumption (% change, AR)	1.1	2.5	2.5	-3.3	2.9	-2.7
Real Nonresidential Fixed Investment (% change, AR)	-10.8	-11.8	-5.0	0.6	9.3	1.1
Real Residential Fixed Investment (% change, AR)	6.1	12.9	-10.2	-25.3	-31.9	-17.4
Housing Starts (000's of units, AR)	1114	952	920	865	962	1173
Change in Business Inventories ($72, billions)	2.3	-4.4	-15.4	4.8	16.5	12.1
Net Exports ($72, billions)	25.7	35.7	36.9	36.5	39.2	44.2
Real Government Purchases (% change, AR)	6.8	-5.3	-2.9	7.0	3.6	-4.1
Fixed-weighted Price Index (% change, AR)	5.6	4.1	4.8	8.5	8.9	8.4
Corporate Profits (% change)						
Before-tax (current production)	6.8	-1.1	-14.6	-4.8	4.3	-7.6
After-tax (current production)	5.1	-0.4	-10.6	1.4	4.5	-2.8
Before-tax (book)	4.8	0.0	-20.7	-7.2	3.5	-10.9
After-tax (book)	2.4	1.2	-20.7	-3.9	3.1	-9.5

11/30/82